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The Director of Central Intelligence
Washington, D.C. 20505

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National Intelligence Council

7 May 1986

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM:

Acting National Intelligence Officer for Economics

SUBJECT: Background for 8 May Cabinet Meeting on Economic Summit

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1. This Memorandum is background for your 8 May meeting with the President on the Economic Summit.

2. Overall, the Economic Summit was a success for US interests. The CIA, in my view, gets high marks for its support.

3. Japan entered the summit looking for an agreement that the dollar had fallen too quickly. Secretary Baker was able to engineer a package on monetary reform that stressed greater monitoring of economic "indicators" among the seven and avoided promising support for the yen.

4. Prime Minister Thatcher was instrumental in forging the tough statement on terrorism. The measures are not mandatory, however, and correspond to those already agreed to by EC ministers and being put in effect.

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6. I have asked DDI/EURA to provide you with a brief rundown on foreign reactions to the summit prior to your cabinet meeting tomorrow.

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7. The attached packet includes:

-- Tab A: A Summary of Major Accomplishments at the Summit.

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-- Tab C: The Summit Declaration.

-- Tab D: The Texts of the Official Statements

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Attachments:
As Stated

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MEMORANDUM FOR: Director of Central Intelligence
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SUBJECT: Background for 8 May Cabinet Meeting on the Economic
Summit

ANIO/ECON

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Attachments:
As Stated

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SUMMARY OF THE MAJOR ACCOMPLISHMENTS
OF THE TOKYO SUMMIT

The 4-6 May Summit was a politically harmonious meeting which took some small steps on several political and economic issues on which the US wanted to see progress:

TERRORISM

- The Summit leaders agreed on a statement specifying possible measures to be used against states supporting terrorism, particularly Libya:
 - o arms export ban,
 - o limitations on the size of diplomatic missions, and restrictions on movement of diplomatic personnel,
 - o denial of entry to all persons expelled from any summit country on suspicion of involvement in terrorism,
 - o improved extradition procedures,
 - o stricter immigration and visa requirements. [REDACTED] 25X1
- The mention of Libya by name and the agreement on the list of measures represent a success for US interests. Prime Minister Thatcher was instrumental in arguing for the toughest-possible statement. Prime Minister Nakasone, worried about Japanese interests in the Arab world, was the most reluctant to go along. [REDACTED] 25X1
- The measures, which are not mandatory, are virtually identical to measures directed against Libya agreed upon by EC Foreign Ministers in late April and currently being put into effect by all the EC states except Greece. [REDACTED] 25X1

SOVIET NUCLEAR ACCIDENT AT CHERNOBYL

- The leaders called on the Soviet Union to provide detailed information on the disaster. They welcomed Soviet discussions with the International Atomic Energy Agency on the subject, and supported the creation of an international legal convention committing states to exchange information on nuclear accidents. [REDACTED] 25X1

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MONETARY COOPERATION

- Summit leaders in their Economic Declaration praised past cooperation within the Group of Five (G-5) on monetary issues and agreed on some modest measures to improve further the operation of the international monetary system. [REDACTED]
- o They formed a Group of Seven (G-7), including Italy and Canada, which, along with the G-5, will monitor monetary and related economic developments.
 - o They specified a number of indicators that G-7 governments, working with the IMF, could use to determine whether their economic policies are compatible with other G-7 countries.
 - o They called on finance ministers and central bankers to make their best effort to reach agreement on remedial action if these indicators show their policies are out of line.
- The Declaration does not make policy adjustments mandatory and West Germany probably stymied efforts to make responses to the indicators automatic. An IMF study to be completed this fall is likely to clarify how indicators would operate. Some G-5 countries, meanwhile, may try to retain the major decisionmaking power on monetary matters in the smaller group rather than surrender it to the G-7. [REDACTED]

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TRADE ISSUES

- Summit leaders pledged an "early launching," but set no date, for a new GATT round. French officials made clear in their public comments before the Summit that the would resist setting a date. The leaders also agreed to study the "liberalization of farm trade," and that this should be a topic in the GATT round. France, anxious to protect its agricultural interests in the EC, would not agree to any stronger commitment, such as to eliminate farm export subsidies. [REDACTED]

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Text of Economic Declaration Issued at End of Tokyo Summit Conference

TOKYO, May 6 (AP) — Following is the text of the Tokyo Economic Declaration issued today by the leaders of the United States, Japan, West Germany, Britain, France, Italy and Canada at the conclusion of their three-day summit meeting:

[1]

We, the heads of state or government of seven major industrialized countries and the representatives of the European Community, meeting in Tokyo for the 12th Economic Summit, have reviewed developments in the world economy since our meeting in Bonn a year ago and have reaffirmed our continuing determination to work together to sustain and improve the prosperity and well-being of the peoples of our own countries, to support the developing countries in their efforts to promote their economic growth and prosperity and to improve the functioning of the world monetary and trading systems.

[2]

Developments since our last meeting reflect the effectiveness of the policies to which we have committed ourselves at successive Economic Summits in recent years. The economies of the industrialized countries are now in their fourth year of expansion. In all our countries the rate of inflation has been declining. With the continuing pursuit of prudent fiscal and monetary policies, this has permitted a substantial lowering of interest rates. There has been a significant shift in the pattern of exchange rates which better reflects fundamental economic conditions.

For the industrialized countries, and indeed for the world economy, the recent decline in oil prices will help to sustain noninflationary growth and to increase the volume of world trade, despite the difficulties which it creates for certain oil-producing countries. Over all, these developments offer brighter prospects for, and enhance confidence in, the future of the world economy.

[3]

However, the world economy still faces a number of difficult challenges which could impair sustainability of growth. Among these are high unemployment, large domestic and external imbalances, uncertainty about the future behavior of exchange rates, persistent protectionist pressures, continuing difficulties of many developing countries and severe debt problems for some and uncertainty about medium-term prospects for the levels of energy prices.

If large imbalances and other distortions are allowed to persist for too long, they will present an increasing threat to world economic growth and to the open multilateral trading system. We cannot afford to relax our efforts. In formulating our policies, we need to look to the medium and longer term and to have regard to the interrelated and structural character of current problems.

[4]

We stress the need to implement effective structural adjustment policies in all coun-

tries across the whole range of economic activities to promote growth, employment and the integration of domestic economies into the world economy. Such policies include technological innovation, adaptation of industrial structure and expansion of trade and foreign direct investment.

[5]

In each of our own countries, it remains essential to maintain a firm control of public spending within an appropriate medium-term framework of fiscal and monetary policies. In some of our countries there continue to be excessive fiscal deficits which the governments concerned are resolved progressively to reduce.

[6]

Since our last meeting we have had some success in the creation of new jobs to meet additions to the labor force, but unemployment remains excessively high in many of our countries. Noninflationary growth remains the biggest single contributor to the limitation and reduction of unemployment, but it needs to be reinforced by policies which encourage job creation, particularly in new and high-technology industries, and in small business.

[7]

At the same time it is important that there should be close and continuous coordination of economic policy among the seven summit countries. We welcome the recent examples of improved coordination among the Group of Five finance ministers and central bankers, which have helped to change the pattern of exchange rates and to lower interest rates on an orderly and noninflationary basis. We agree, however, that additional measures should be taken to insure that procedures for effective coordination of international economic policy are strengthened further.

To this end, the heads of state or government:

¶ Agree to form a new Group of Seven finance ministers, including Italy and Canada, which will work together more closely and more frequently in the periods between the annual summit meetings;

¶ Request the seven finance ministers to review their individual economic objectives and forecasts collectively at least once a year, using the indicators specified below, with a particular view to examining their mutual compatibility.

With the representatives of the European Community:

¶ State that the purposes of improved coordination should explicitly include promoting noninflationary economic growth, strengthening market-oriented incentives for employment and productive investment, opening the international trading and investment system and fostering greater stability in exchange rates;

¶ Reaffirm the undertaking at the 1982 Versailles Summit to cooperate with the International Monetary Fund in strengthening multilateral surveillance, particularly among the countries whose currencies constitute the Special Drawing Rights, and request that, in

conducting such surveillance and in conjunction with the managing director of the I.M.F., their individual economic forecasts should be reviewed, taking into account indicators such as gross national product growth rates, inflation rates, interest rates, unemployment rates, fiscal deficit ratios, current account and trade balances, monetary growth rates, reserves and exchange rates;

¶ Invite the finance ministers and central bankers in conducting multilateral surveillance to make their best efforts to reach an understanding on appropriate remedial measures whenever there are significant deviations from an intended course and recommend that remedial efforts focus first and foremost on underlying policy fundamentals, while reaffirming the 1983 Williamsburg commitment to intervene in exchange markets when to do so would be helpful.

The heads of state or government:

¶ Request the Group of Five finance ministers to include Canada and Italy in their meetings whenever the management or the improvement of the international monetary system and related economic policy measures are to be discussed and dealt with;

¶ Invite finance ministers to report progress at the next economic summit meeting.

These improvements in coordination should be accompanied by similar efforts within the Group of 10.

[8]

The pursuit of these policies by the industrialized countries will help the developing countries insofar as it strengthens the world economy, creates conditions for lower interest rates, generates the possibility of increased financial flows to the developing countries, promotes transfer of technology and improves access to the markets of the industrialized countries.

At the same time developing countries, particularly debtor countries, can fit themselves to play a fuller part in the world economy by adopting effective structural adjustment policies, coupled with measures to mobilize domestic savings, to encourage the repatriation of capital, to improve the environment for foreign investment and to promote more open trading policies.

In this connection, noting in particular the difficult situation facing those countries highly dependent on exports of primary commodities, we agree to continue to support their efforts for further processing of their products and for diversifying their economies and to take account of their export needs in formulating our own trade and domestic policies.

[9]

Private financial flows will continue to play a major part in providing for their development needs. We reaffirm our willingness to maintain and, where appropriate, expand official financial flows, both bilateral and multilateral, to developing countries. In this connection, we attach great importance to an early and substantial eighth replenishment of the International Development Association and to a general capital increase of the World Bank when appropriate. We look for progress

[10]

We reaffirm the continued importance of the case-by-case approach to international debt problems. We welcome the progress made in developing the cooperative debt strategy, in particular building on the United States initiative. The role of the international financial institutions, including the multilateral development banks, will continue to be central, and we welcome moves for closer cooperation among these institutions, and particularly between the I.M.F. and the World Bank. Sound adjustment programs will also need resumed commercial bank lending, flexibility in rescheduling debt and appropriate access to export credits.

[11]

We welcome the improvement which has occurred in the food situation in Africa. Nonetheless a number of African countries continue to need emergency aid, and we stand ready to assist. More generally, we continue to recognize the high priority to be given to meeting the needs of Africa. Measures identified in the Report on Aid to Africa adopted and forwarded to us by our foreign ministers should be steadily implemented. Assistance should focus in particular on the medium- and long-term economic development of these countries.

In this connection we attach great importance to continued cooperation through the Special Facility for Sub-Saharan African Countries, early implementation of the newly established Structural Adjustment Facility of the I.M.F. and the forthcoming United Nations Special Session on Africa to lay the foundation for the region's long-term development.

[12]

The open multilateral trading system is one of the keys to the efficiency and expansion of the world economy. We reaffirm our commitment to halting and reversing protectionism and to reducing and dismantling trade restrictions. We support the strengthening of the new system and functioning of the General Agreement on Tariffs and Trade, its adaptation to new developments in world trade and to the international economic environment and the bringing of new issues under international discipline.

The new round should, inter alia, address the issues of trade in services and trade-related aspects of intellectual property rights and foreign direct investment. Further liberalization of trade is, we believe, of no less importance for the developing countries than for ourselves, and we are fully committed to the preparatory process in the GATT with a view to the early launching of the new round of multilateral trade negotiations. We shall work at the September ministerial meeting to make decisive progress in this direction.

[13]

We note with concern that a situation of global structural surplus now exists for some important agricultural products, arising

partly from changes in the world market situation and partly from longstanding policies of domestic subsidy and protection of agriculture in all our countries. This harms the economies of certain developing countries and is likely to aggravate the risk of wider protectionist pressures. This is a problem which we all share and can be dealt with only in cooperation with each other.

We all recognize the importance of agriculture to the well-being of rural communities, but we are agreed that, when there are surpluses, action is needed to redirect policies and adjust structure of agricultural production in the light of world demand. We recognize the importance of understanding these issues and express our determination to give full support to the work of the Organization for Economic Cooperation and Development in this field.

[14]

Bearing in mind that the recent oil price decline owes much to the cooperative energy policies which we have pursued during the past decade, we recognize the need for continuity of policies for achieving long-term energy market stability and security of supply. We note that the current oil market situation enables countries which wish to do so to increase stock levels.

[15]

We reaffirm the importance of science and technology for the dynamic growth of the world economy and take note, with appreciation, of the final report of the Working Group on Technology, Growth and Employment. We welcome the progress made by the United States manned space program and the progress made by the autonomous work of the European Space Agency. We stress the importance for genuine partnership and appropriate exchange of information, experience and technologies among the participating states. We also note with satisfaction the results of the symposium on neuroscience and ethics, hosted by the Federal Republic of Germany, and we appreciate the decision of the Canadian Government to host the next meeting.

[16]

We reaffirm our responsibility, shared with other governments, to preserve the natural environment and continue to attach importance to international cooperation in the effective prevention and control of pollution and natural resources management. In this regard we take note of the work of the environmental experts on the improvement and harmonization of the techniques and practices of environmental measurement and ask them to report as soon as possible. We also recognize the need to strengthen cooperation with developing countries in the area of the environment.

[17]

We have agreed to meet again in 1987 and have accepted the invitation of the president of the Council of the Italian Government to meet in Italy.

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Texts of the Statements Adopted by

Leaders of 7 Industrial Democracies

TOKYO, May 5 (AP) — Following are the official texts of the statements on international terrorism, nuclear accidents and political issues that were adopted here today by the leaders of seven industrial democracies:

Terrorism

We, the heads of state or government of seven major democracies and the representatives of the European Community, assembled here in Tokyo, strongly reaffirm our condemnation of international terrorism in all its forms, of its accomplices and of those, including governments, who sponsor or support it. We abhor the increase in the level of such terrorism since our last meeting, and in particular its blatant and cynical use as an instrument of government policy. Terrorism has no justification. It spreads only by the use of contemptible means, ignoring the values of human life, freedom and dignity. It must be fought relentlessly and without compromise.

Recognizing that the continuing fight against terrorism is a task which the international community as a whole has to undertake, we pledge ourselves to make maximum efforts to fight against the scourge. Terrorism must be fought effectively through determined, tenacious, discreet and patient action combining national measures with international cooperation. Therefore, we urge all like-minded nations to collaborate with us, particularly in such international fora as the United Nations, the International Civil Aviation Organization and the International Maritime Organization, drawing on their expertise to improve and extend countermeasures against terrorism and those who sponsor or support it.

We, the heads of state or government, agree to intensify the exchange of information in relevant fora on threats and potential threats emanating from terrorist activities and those who support and sponsor them, and on ways to prevent them.

We specify the following as measures open to any government concerned to deny to

international terrorists the opportunity and the means to carry out their aims, and to identify and deter those who perpetrate such terrorism. We have decided to apply these measures within the framework of international law and in our own jurisdictions in respect of any state which is clearly involved in sponsoring or supporting international terrorism, and in particular of Libya, until such time as the state concerned abandons its complicity in, or support for, such terrorism. These measures are:

¶ Refusal to export arms to states which sponsor or support terrorism.

¶ Strict limits on the size of the diplomatic and consular missions and other official bodies abroad of states which engage in such activities, control of travel of members of such missions and bodies, and, where appropriate, radical reductions in, or even the closure of, such missions and bodies.

¶ Denial of entry to all persons, including diplomatic personnel, who have been expelled or excluded from one of our states on suspicion of involvement in international terrorism or who have been convicted of such a terrorist offense.

¶ Improved extradition procedures within due process of domestic law for bringing to trial those who have perpetrated such acts of terrorism.

¶ Stricter immigration and visa requirements and procedures in respect of nationals of states which sponsor or support terrorism.

¶ The closest possible bilateral and multilateral cooperation between police and security organizations and other relevant authorities in the fight against terrorism.

Each of us is committed to work in the appropriate international bodies to which we belong to insure that similar measures are accepted and acted upon by as many other governments as possible.

We will maintain close cooperation in furthering the objectives of this statement and in considering further measures. We agree to make the 1978 Bonn Declaration more effective in dealing with all forms of terrorism affecting civil aviation. We are ready to promote bilaterally and multilaterally further

actions to be taken in international organizations or fora competent to fight against international terrorism in any of its forms.

Nuclear Accidents

We, the heads of state or government of seven major industrial nations and representatives of the European Community, have discussed the implications of the accident at the Chernobyl nuclear power station. We express our deep sympathy for those affected.

We remain ready to extend assistance, in particular medical and technical, as and when requested. Nuclear power is, and properly managed will continue to be, an increasingly widely used source of energy. For each country, the maintenance of safety and security is an international responsibility. And each country engaged in nuclear power generation bears full responsibility for the safety of the design, manufacture, operations and maintenance of its installations.

Each of our countries needs exacting standards. Each country, furthermore, is responsible for prompt provision of detailed and complete information on nuclear emergencies and accidents, in particular those with potential transboundary consequences.

Each of our countries accepts that responsibility, and we urge the government of the Soviet Union, which did not do so in the case of Chernobyl, to provide urgently such information as our and other countries have requested.

We note with satisfaction the Soviet Union's willingness to undertake discussions this week with the Director General of the International Atomic Energy Agency, the I.A.E.A. We expect that these discussions will lead to the Soviet Union's participation in the desired post-accident analysis.

We welcome and encourage the work of the I.A.E.A. in seeking to improve international cooperation on the safety of nuclear installations, the handling of nuclear accidents and their consequences, and the provision of mutual emergency assistance.

Moving forward from the relevant I.A.E.A. guidelines, we urge the early elaboration of

an international convention committing the parties to report and exchange information in the event of nuclear emergencies or accidents.

This should be done with the least possible delay.

Political Issues

¶We, the heads of state or government of seven major industrial nations and the representatives of the European Community, with roots deep in the civilizations of Europe and Asia, have seized the opportunity of our meeting at Tokyo to raise our sights not just to the rest of this century but into the next as well. We face the future with confidence and determination, sharing common principles and objectives and mindful of our strengths.

¶Our shared principles and objectives, reaffirmed at past summits, are bearing fruit. Nations surrounding the Pacific are thriving dynamically through free exchange, building on their rich and varied heritages. The countries of Western Europe, the Community members in particular, are flourishing by raising their cooperation to new levels. The countries of North America, enriched by European and Asian cultures alike, are firm in their commitment to the realization in freedom of human potential. Throughout the world, we see the powerful appeal of democracy and growing recognition that personal initiative, individual creativity and social justice are main sources of progress.

More than ever, we have all to join our energies in the search for a safer and healthier, more civilized and prosperous, free and peaceful world. We believe that the close partnership of Japan, North America and Europe will make a significant contribution toward this end.

¶We reaffirm our common dedication to preserving and strengthening peace and, as a part of that effort, to building a more stable and constructive relationship between East and West. Each of us is ready to engage in cooperation in fields of common interest. Within existing alliances, each of us is resolved to maintain a strong and credible de-

fense that can protect freedom and deter aggression while not threatening the security of others.

We know that peace cannot be safeguarded by military strength alone. Each of us is committed to addressing East-West differences through high-level dialogue and negotiation. To that end, each of us supports balanced, substantial and verifiable reductions in the level of arms; measures to increase confidence and reduce the risks of conflicts, and the peaceful resolution of disputes.

Recalling the agreement between the United States and the Soviet Union to accelerate work at Geneva, we appreciate the United States' negotiating efforts and call on the Soviet Union also to negotiate positively. In addition to these efforts, we shall work for improved respect for the rights of individuals throughout the world.

¶We proclaim our conviction that in today's world, characterized by ever-increasing interdependence, our countries cannot enjoy lasting stability and prosperity without stability and prosperity in the developing world and without the cooperation among us which can achieve these aims. We pledge ourselves afresh to fight against hunger, disease and poverty, so that developing nations can also play a full part in building a common, bright future.

¶We owe it to future generations to pass on a healthy environment and a culture rich in both spiritual and material values. We are resolved to pursue effective international action to eliminate the abuse of drugs. We proclaim our commitment to work together for a world which respects human beings in the diversity of their talents, beliefs, cultures and traditions. In such a world based upon peace, freedom and democracy, the ideals of social justice can be realized and employment opportunities can be available for all. We must harness wisely the potential of science and technology, and enhance the benefits through cooperation and exchange. We have a solemn responsibility so to educate the next generation as to endow them with the creativity befitting the 21st century and to convey to them the value of living in freedom and dignity.

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